

Minneapolis Community Development Agency

Request for City Council Action

April 22, 2003

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$1,550,000 in Taxable Qualified Zone Academy Revenue Bonds for the Minnesota Transitions Charter School Project.

Previous Directives: None. Project is requesting preliminary approval of revenue bond financing at this time.

Ward: 9; project located at 2526 27th Ave. S. and 2862 26th Ave. S.

Neighborhood Group Notification: The Seward Neighborhood Group and the Longfellow Community Council were notified of this proposed project on April 7, 2003.

Consistency with *Building a City That Works*: Providing assistance to Minneapolis charter schools is consistent with Goals 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis and Goal 5 of participating in partnerships to achieve common community objectives.

Comprehensive Plan Compliance: In compliance.

Zoning Code Compliance: In compliance. The two school facilities are zoned C-2 Commercial and M-1.

Impact on the MCDA Budget:

☐ No financial impact
☐ Action requires an appropriation increase to the MCDA Budget
☐ Action provides increased revenue for appropriation increase
☐ Action requires use of contingency or reserves
☒ Other financial impact (Explain): The issuance of taxable qualified zone academy revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Living Wage/Business Subsidy: Does not apply. The project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: Pending review for appropriate action.

Affirmative Action Compliance: In compliance. Project will have on file an approved Affirmative Action Plan prior to bond closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published following a Public Hearing held on April 22, 2003 notice of which was published in Finance and Commerce on April 5, 2003 giving Preliminary Approval to the issuance of up to \$1,550,000 in Taxable Qualified Zone Academy Revenue Bonds for the Minnesota Transitions Charter School Project.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

Minnesota Transitions Charter School:
Technology Academy High School
located at 2862 26th Ave. S. and the
Communications Technology High
School located at 2526 27th Ave. S.
Ward: 9
Neighborhoods: Seward and Longfellow

The Minnesota Transitions Charter School will be rehabbing its high schools that are located in two buildings. The Communications Technology High School at 2526 27th Ave. S. will be a rehabilitation of existing space to provide more classrooms and more recreational space. The Technology Academy High School at 2862 26th Ave. S. will be a rehabilitation of existing space to allow a multi-purpose room, a sound/computer classroom and a sound studio.

Both of the buildings are located in the Minneapolis Empowerment Zone, all within Ward 9, and the Seward and Longfellow neighborhoods.

Minnesota Transitions Charter School operates technology-oriented programs for K-12 students at four Minneapolis sites. The charter school serves primarily low-income inner city students many living within the Minneapolis Empowerment Zone. Over 60% of the students are low-income.

The total estimated costs of the rehab including private donations is \$1,800,000.

TYPE OF FINANCING:

The revenue bond sale of \$1,550,000 will cover a portion of the estimated total project cost of \$1,800,000. Other private donations will cover the remaining costs. The revenue bond sale is being arranged through the services of Dougherty & Company and the use of the State of Minnesota's allocation of Qualified Zone Academy Bonds.

Sources:

Taxable Qualified Zone Academy Bonds	\$1,550,000
Private donations	300,000
	<u>\$1,850,000</u>

Uses:

Renovation costs at two schools	\$1,800,000
Issuance costs	50,000
	<u>\$1,850,000</u>

PRESENT EMPLOYMENT:

60 teachers, teacher assistants and other support personnel.

NEW EMPLOYMENT:

None expected as a result of the rehab work.

ASSESSOR'S ESTIMATED
ANNUAL TAX INCREASE:

Tax-exempt facilities.

AFFIRMATIVE ACTION COMPLIANCE:

Project will have on file an approved Affirmative Action Plan prior to bond closing.

MCDA IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

Charter School: In compliance.

Property Improvements

No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.

Charter School: In compliance.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

Charter School: In compliance.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

Charter School: In compliance.

Restaurant/Bank

IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities.

Charter School: N.A.

Tax-exempt Institution

Refinancing is permitted when new jobs are created or when a significant number of jobs is preserved; any interest cost savings must directly reduce patient costs.

Charter School: N.A.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

The project is not subject to the volume cap in that there is no volume limitation for Taxable Revenue Bonds.

BOND COUNSEL:

Briggs & Morgan

UNDERWRITER:

Dougherty & Company, LLC

Giving preliminary approval to a project on behalf of Minnesota Transitions Charter School and authorizing the issuance of industrial development revenue development bonds of the City of Minneapolis therefor under Minnesota Statutes, Sections 469.152 through 469.165, as amended; referring the proposed project to the Minnesota Department of Trade and Economic Development for approval; and authorizing the preparation of necessary documents.

WHEREAS, pursuant to Sections 469.152 through 469.165 of the Minnesota Statutes (the “Act”), as amended, the City of Minneapolis (the “City”), is authorized to issue industrial development revenue bonds for the purpose of providing financing for the acquisition, construction and installation of projects consisting of real and personal properties used or useful in connection with a revenue-producing enterprise; and

WHEREAS, in enacting the Act the Legislature found that the welfare of the State of Minnesota requires the active promotion, attraction, encouragement and development of economically sound industry and commerce to prevent, as far as possible, the emergence of blight and areas of chronic unemployment and to prevent economic deterioration; and

WHEREAS, other factors necessitating such active promotion and development of industry and commerce within the City are the increasing movement of population and business to suburban areas, the steady and rapid increase in the amount and cost of governmental services required to meet the needs of the City and the need for more intensive development and use of land within the City to provide an adequate tax base to finance these costs; and

WHEREAS, the promotion, attraction, encouragement and development of economically sound industry and commerce provides employment opportunities for residents of the City and requires the City to provide services to the community including schools available to the public; and

WHEREAS, Minnesota Transitions Charter School, a Minnesota nonprofit corporation and a charter school for grades K through 12 (the “Charter School”) and Minnesota Technology Education Corporation, a Minnesota nonprofit corporation, or either of them (collectively, the “Borrower”) have proposed that the City assist in financing the renovation and equipping of an existing building used by the Charter School at 2526 27th Avenue South, Minneapolis, to provide classrooms and recreational space and renovation and equipping of an existing building used by the Charter School at 2862 26th Avenue South, Minneapolis, to create a multipurpose room, sound/computer classroom and a sound studio and to install computer and other technological equipment and related facilities (the “Project”); and

WHEREAS, the Borrower has proposed that the City issue one or more series of its industrial development revenue bonds in the form of taxable qualified zone academy revenue bonds (the “Bonds”) for the purpose of financing the Project, including certain incidental expenses thereto, in an approximate aggregate principal amount of \$1,550,000 and the proposal calls for the proceeds realized upon the sale of the Bonds to be applied by the Borrower pursuant to a revenue agreement wherein the Borrower will be obligated to renovate and equip the Project and to make payments under the revenue agreement at the times and in the amounts sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Bonds and all costs and expenses of the City incident to the issuance and sale of the Bonds; and

WHEREAS, the City has been advised by representatives of the Borrower that conventional, commercial financing to pay the capital cost of the Project has not been obtained and is available only on a limited basis and at such high costs and on such terms of borrowing that the economic feasibility of constructing and operating the Project would be significantly impaired and could not be undertaken but for the availability of qualified zone academy revenue bond financing and the lower borrowing cost resulting therefor.

WHEREAS, the proposed Project consists of real and personal properties to be used in a revenue-producing enterprise, as authorized by the Act; and

WHEREAS, the undertaking of the proposed Project and the issuance of the Bonds to finance the cost thereof will further promote the public purposes and legislative objectives of the Act by encouraging the location and retention of revenue-producing enterprises within the City and by providing additional educational facilities in the City. The Project will also provide additional employment opportunities for residents of the City, and stimulate the development and redevelopment of underutilized lands within the City; and

WHEREAS, the full faith and credit of the City will not be pledged or responsible for the Project or for the payment of the principal of, premium, if any, and interest on the Bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the undertaking of the Project and the issuance by the City of its Bonds pursuant to the Act, in an approximate aggregate principal amount of \$1,550,000 to finance the costs thereof, all as referred to above, is hereby authorized and approved by the City, subject to the approval of the Project by the Minnesota Department of Trade and Economic Development (“DTED”) under

the Act, and to the agreement of the City, the Borrower and the purchaser of the Bonds on the detailed terms and conditions on which the Project will be acquired and constructed and the Bonds will be issued, sold and secured. The Bonds are hereby designated "Program Bonds" and are determined to be within the "Economic Development Program" and the "Program," all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted August 12, 1997.

BE IT FURTHER RESOLVED, that in accordance with the Act, the Mayor, President, City Council, Finance Officer, City Clerk are hereby authorized and directed to submit the proposal for undertaking the Project to DTED requesting approval of the Project. The Mayor, President of this Council, Finance Officer, City Clerk and the City Attorney and other officers, employees and agents of the City are hereby authorized to provide DTED such preliminary information as may be required for this purpose. The City Attorney is also authorized in cooperation with Briggs and Morgan, P.A., as bond counsel, to initiate preparation of such documents as may be appropriate to the Project, in order that, when and if the Project is approved by DTED, it may be carried forward expeditiously.

BE IT FURTHER RESOLVED, that the adoption of this resolution by the City does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Borrower. The City reserves the right, in its sole discretion, to withdraw from participation and accordingly not issue any Bonds to finance the Project at any time prior to the adoption of the resolution authorizing the issuance of such Bonds should the City so determine.

BE IT FURTHER RESOLVED, that this resolution shall take effect upon publication.